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Issues in Vendor- Library Relations Booksellers & Consortia (Part 2)



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In the last issue of *Against the Grain* I discussed the effects of economies of scale on pricing book supply services to consortia. I contended that consortia, if they buy in the traditional way, will not produce significant economies of scale, despite their much larger book buying budgets. Since labor is such a large component of the booksellers' cost structure, the economies don't occur when booksellers have multiple library customers, whether within or outside a consortium. The labor costs per library remain largely the same, and labor (and other variable human costs) rise almost in tandem with increased volume. However, fear of losing substantial revenue through the loss of a consortium-wide purchasing agreement, may, in the short term, result in higher discounts. These discounts will not hold over time, because vendors who cut their profits too much will fail. Eventually discounts to consortia will cluster around the levels we are seeing today, or even fall, because these prevailing discounts seem to enable booksellers to remain profitable while discounts are at an historic high point.

What does the future hold for discount levels? Discounts are set by the market over time, as vendors use discounts as one enticement for increased revenue. The important point here is "one enticement." If products or services are viewed by the market as commodities, the price of those products has a very high influence on purchasing. An example of such commodity products is the airline industry, where the basic services, serv-

ing the same cities at approximately the same times and frequencies, are indistinguishable from each other. So airfares are the same from carrier to carrier, and the moment a low fare upstart airline enters a market, all the other airlines meet that lower fare. Passengers, sitting in a tube hurtling through the sky, care less whether they are on United or Ernie's Airline, assuming the government is doing its job to monitor safety standards. Only frequent flyer programs make one airline more attractive than another, and that is why they are such powerful marketing tools. When the service is the same, the price will be as low as possible to produce a profit, which itself will be as low as the service supplier can bear. When frequent flyer programs differentiate these service suppliers, they exert enormous influence over both price and product loyalty because they provide a single, and valuable, buying focus to the service users.

Historically booksellers have offered relatively undifferentiated services to libraries. Service quality centered on fast delivery and low error rates. Once a bookseller achieved this quality, it joined the ranks of other high quality vendors and became indistinguishable. So price became the only measurable distinguishing characteristic, and price (discount) exerted a powerful influence because it was easily measured and easily justified as the determining factor in vendor choice. Discounts rose over time as vendors became more efficient, because price continued to be the most significant enticement for increased revenue. We have now reached a point where discounts are probably as high as they can go. Further significant increases can occur if efficiency makes another leap, but that seems unlikely. In fact, two factors may cause discounts to fall.

These two factors are in a cause/effect relationship, so they seem to be fairly certain. The cause factor is an increasing demand by libraries for vendors to supply a variety of new, non-traditional and valuable services, such as more sophisticated approval plans, more so-

phisticated standing order programs, more technical services and book processing options, a desire for more centralized supply sources (meaning more books from foreign countries), technology support both in the form of Websites and seamless integration with library systems, EDI, and the ability to support cooperative collection management within library consortia or among other variations of cooperating libraries. Any and all of these new services have the effect of reducing vendor efficiency. They require research and development by highly paid people, both professional librarians and systems development gurus. Some of the services, like book processing, have fixed per book labor costs. Others, like ILS integration and EDI, have high development costs. So it seems unlikely that vendors will be spending less on a per book basis over the next few years, which implies that the rise in discounts will end.

The effect factor is that the development of these new services will differentiate vendors, changing the perception among buyers of these services that all high quality vendors are essentially the same. This signals the end of book supply services as commodities. Now vendor services will be judged by a variety of measurable qualitative factors, all of which have real intrinsic value and will, therefore, result in different pricing. The supply of cataloging records will be judged and valued by catalogers; the integration of vendor-supplied data with the ILS will be judged and valued by systems librarians; the interactive usefulness of vendor databases mounted on Websites will be judged and valued by book selectors; the elegance of EDI will be judged and valued by acquisitions librarians; the ability to support cooperative collection management among collaborating libraries, inside and outside consortia, will be judged and valued by library administrators. Different value judgments, placed on different services, will result in different pricing. Librarians will pay more for certain new services that have real value to them, or that save them more than the cost of providing these services themselves. So the need for vendors to develop and supply new services for libraries will raise vendor costs, and the differentiated value of those services will either cost something themselves, or be sold to libraries in the form of lower discounts.

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*Fear of
losing
substantial
revenue
through
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the short
term,
result in
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discounts.*

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